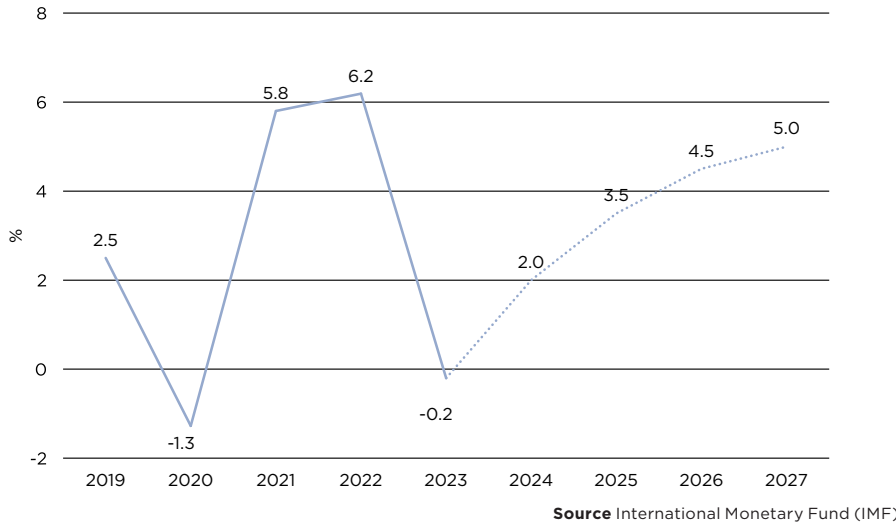


# Karachi Residential

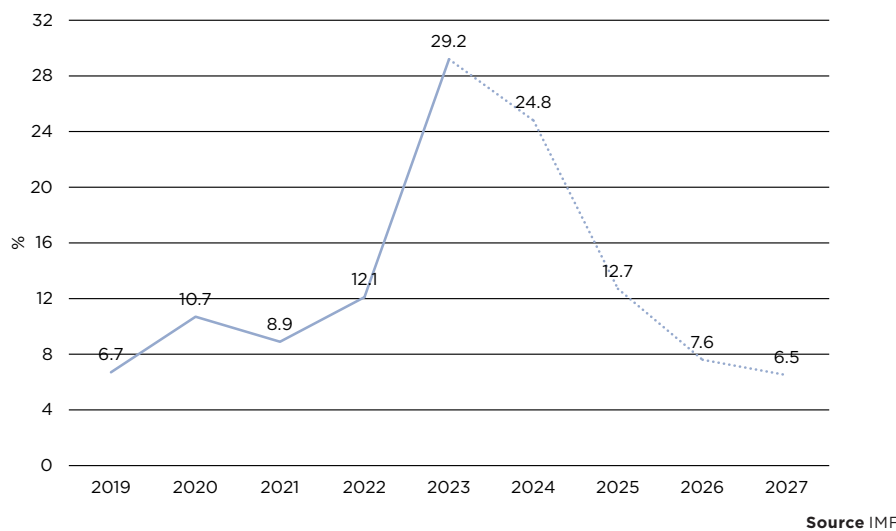


# Karachi residential market sees steady growth

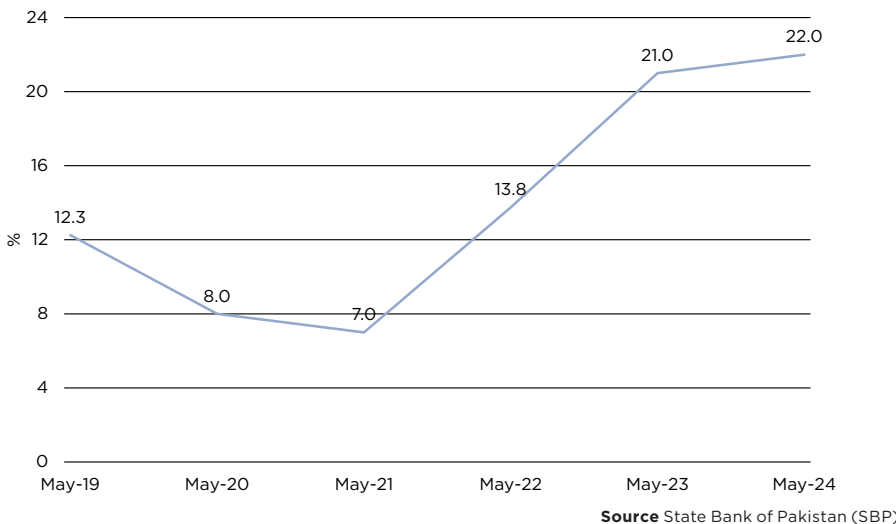
**GRAPH 1: GDP Growth, 2019 to 2027**



**GRAPH 2: Inflation Rates, 2019 to 2027**



**GRAPH 3: Interest Rates, May 2019 to May 2024**



**MACROECONOMIC OVERVIEW**

Pakistan’s economy is showing signs of improvement with a stable exchange rate and a decline in inflation, signaling growing resilience and improved macroeconomic activity. The International Monetary Fund (IMF) conditions as part of a US\$3 billion Stand-By Arrangement (SBA) paved the way for this stability. Pakistan is currently negotiating with the IMF for a larger arrangement, which should result in further economic improvement. However, this may be followed by more economic restrictions and taxes on various sectors, to cool the still high inflation.

Economic activity is expected to remain subdued in FY24, with real GDP growth estimated close to 2% due to the ongoing tight macroeconomic policy, import controls, high inflation, and ongoing policy uncertainty. As per the World Bank, GDP growth is expected to increase to around 3.5 % over FY25, remaining below potential. Unemployment is set to decrease from 8.5% to 8.2% by FY 2024. The IMF estimates that Pakistan’s average inflation will decelerate to 24.8% by FY2024 and slow further to 12.7pc in FY2025. To tackle inflation, the central bank has ramped up interest rates from 7% in May 2021 and held them at a record 22% for a seventh straight policy meeting in April 2024. Economic predictions suggest that the economy has bottomed out and will start moving in a positive direction from FY2025.

Foreign debt servicing remains one of Pakistan’s major issues with US\$40 billion (projected) due in FY2025. The IMF SBA with Pakistan brought welcome respite and the opportunity to unlock foreign funding. The country has almost completed the current SBA and now needs another program to remain afloat. Pakistan is negotiating with the IMF for the next three years and has officially asked the IMF for a new loan package valued between US\$6 billion and US\$8 billion under the Extended Fund Facility (EFF).

**CITY PROFILE**

Karachi, with a population of approximately 20.3 million according to the 2023 digital census, stands as Pakistan’s most expansive and urbanized city. Karachi’s population growth rate was 2.4%, against the national 2.55%. The city’s literacy rate and Human Development Index (HDI) at 75% and 0.674, are higher than the national average of 62% and 0.557, respectively. The city has a labor force of approximately eight million people from across the country engaged in various sectors such as manufacturing, services, and trade.

Karachi is the business hub of Pakistan, hosting the country’s largest stock exchange, most corporate headquarters, and extensive port facilities which facilitate a significant portion of Pakistan’s trade. The city contributes approximately 55% of

the total national tax collection. Karachi's urbanization is reflected in its sprawling infrastructure and expansion into surrounding areas. Karachi's Grade A and B residential real estate is therefore in high demand, particularly in areas such as DHA and Clifton. This demand is largely driven by the city's growing population, an expanding middle and upper class, and a steady influx of both local and international investors seeking lucrative opportunities in one of Pakistan's most vibrant cities.

**RESIDENTIAL MARKET OVERVIEW**

Karachi has historically been the largest real estate market in Pakistan. Residential preferences have evolved significantly over the years, with a noticeable shift towards apartment living. Standalone houses have traditionally been the preferred choice, particularly in suburban areas like DHA, Clifton, and PECHS, offering larger plots and spacious homes. However, in recent years, there has been a marked increase in construction and demand for apartments due to several factors:

- Urbanization and population growth have increased pressure on available land, making apartments a more efficient use of space.
- Apartments are generally more affordable than standalone houses, appealing to middle-class families and young professionals as the rising cost of land and construction has made houses less accessible.
- Modern apartment complexes often come with a range of amenities such as security, maintenance services, recreational facilities, and proximity to commercial areas, which increase access and livability.
- There is a cultural shift towards nuclear families and smaller households, more

**Karachi's Grade A and B residential markets continue to benefit from strong population growth, high levels of commercial activity (it is the financial hub of the country), and interest from both owner occupiers and investors, resulting in steady demand for centrally located developments with high quality finishes and modern amenities.**

suited to apartment living, and the younger generation values proximity to workplaces and social hubs.

- Real estate remains a viable investment option for overseas Pakistanis looking to either maintain a link with the country or return to Pakistan after retirement. The secure land management in DHA and Clifton gives them an edge to attract these overseas investors.
- The real estate market sees apartments as lucrative investments due to their value appreciation and increasing demand from expatriates and young professionals.

As a result, areas such as DHA, Clifton, PECHS, Gulshan-e-Iqbal, Gulistan-e-Johar, and the newly developed Bahria Town Karachi have seen a surge in high-rise apartment projects, reflecting broader trends in urban living where convenience, affordability, and

efficient use of space have become paramount in residential preferences.

A major bottleneck for apartment growth has been financing. Interest rates have spiked from 7% in May 2021 to 22% in May 2024, which has substantially impacted not only the cost of housing finance but also overall consumer lending which can be indirectly funneled into real estate. A typical project payment plan is 3 to 4 years with a downpayment of 30%. High interest rates have reduced demand, which has led some developers to be more flexible with either reduced downpayments and longer payment plans, or with a restructuring of existing payment plans.

Another major bottleneck has been the increase in steel and cement prices, key inputs for real estate developments, along with other major inputs such as Grade A fixtures and fittings which are imported and have been subject to the ongoing PKR devaluation.

**GRADE A AND B RESIDENTIAL MARKET DYNAMICS**

**Existing supply**

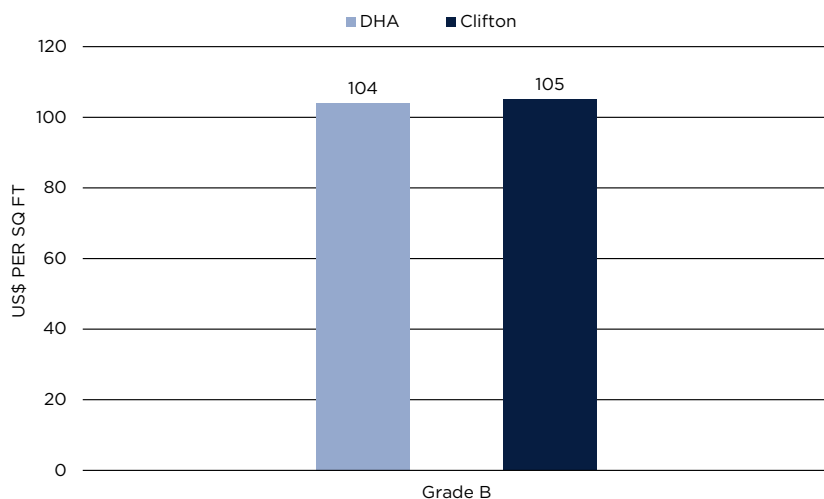
As of 1H/2024, Karachi has 1,552 apartments. All of these are Grade B and either in DHA or Clifton. Total stock will increase from 1,552 units in 2024 to 3,956 in 2028 at a 4-year CAGR of 26% which shows strong growth. 2023 has seen three new projects launched, bringing on stream 708 units.

The existing stock has an average gross sale price per square foot of US\$104, with a range from US\$76 to US\$131.

**Upcoming supply**

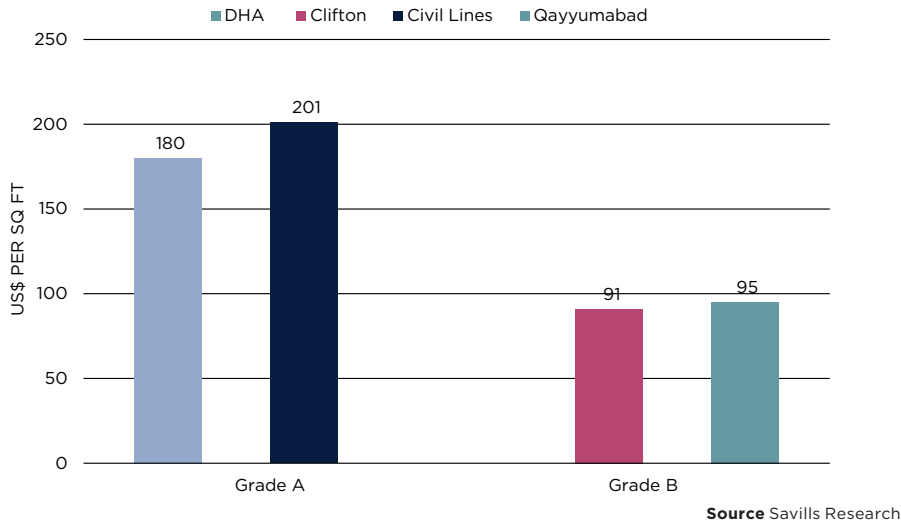
As of 1H/2024, Karachi has an upcoming supply of 2,404 Grade A and B apartments. Of these, 80% are Grade A and have an average gross sale price per square foot of US\$186 with a range from US\$133 to US\$269. This is compared to Grade B developments with an average gross sale price per square foot of US\$93 with a range from US\$91 to US\$95,

**GRAPH 4: Average Price of Residential Market Current Supply by Grade and Location, 1H/2024**

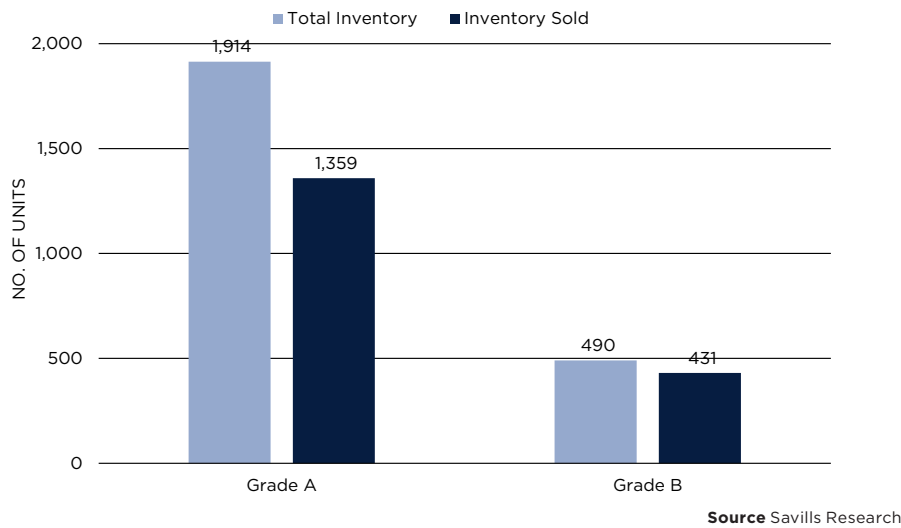


Source Savills Research

**GRAPH 5: Average Price of Residential Market Future Supply by Grade and Location, 1H/2024**



**GRAPH 6: Current Take-up of Supply Coming Onto the Market in the Next Five Years, by Grade, 2024 and beyond?**



which illustrates that the Karachi market is willing to pay a premium for quality finishes and amenities.

Future supply includes two properties in Civil Lines, a central part of Karachi, giving buyers an option outside the traditional markets of DHA and Clifton. The high price is on account of the quality finishes and amenities along with the developer’s reputation; key factors for which buyers are willing to pay a premium.

**Existing demand**

Total upcoming inventory in the next five years is 2,404 units, which is a 55% increase over the existing inventory. Of the 2,404 units 1,790 have already been sold, which shows strong demand.

Demand is from both owner occupiers and investors. For owner occupiers, centrally located areas will provide ease of access to the city. The quality amenities provided will also attract people away from houses towards this lifestyle. For investors, Karachi has finite land, coupled with increased population and urbanization, which should create a demand/supply dynamic which will continue to drive up prices.

**MARKET OUTLOOK**

The overall outlook remains positive due to the increasing inventory and sales of new developments. Although rising construction costs, driven by higher import expenses due to the depreciated PKR, have slowed this growth, the growing population, urbanization, and growing prosperity will sustain demand for residential developments in central locations with quality finishes and modern amenities.

Apartment living is expected to rise as the city’s population and congestion increase. People will likely prefer centrally located projects with high-quality finishes and amenities, gravitating towards this lifestyle. This trend, along with ongoing land price increases, will make apartments in areas like DHA and Clifton a valuable long-term investment, given the rising demand from across the city and from overseas Pakistanis.



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